

China Policy

China enhances policy support to boost growth

The state council held a meeting on Wednesday, planning additional policy support to boost China's growth. The cabinet indicated to lower RRR, large banks' provision coverage ratio and enterprises' financing cost to enhance credit support the economy. To boost domestic consumption, the central government planned to support the development of healthcare, elderly care and childcare services, encouraged large cities to increase their auto purchase quotas and vowed to support the development of new energy vehicles. The state council also said to make the VAT refunds for exporters more convenient and faster to support export growth. Most policies to boost consumption and exports are not new and the actual impact on growth may be limited. But the cabinet's recent moves show the government's determination to boost growth, which should be positive for the market sentiment. The RRR cut indicates China's monetary policy remains on the loosening track, which is important for the market when the US Fed plans for aggressive policy tightening. China will also accelerate government bond issuance to boost infrastructure investment. The monetary policy easing and fiscal policy expansion should help boost investors' risk appetite for non-bank financials, property and infrastructure related sectors.

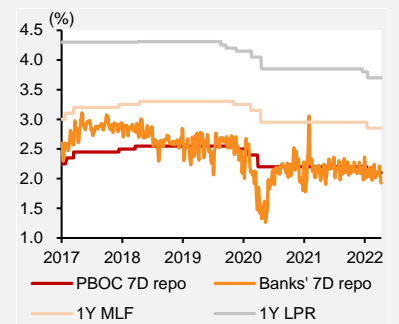
■ **Cut in RRR, large banks' provision coverage ratio and financing cost for the corporate sector.** The state council indicated to cut RRR and large banks' provision coverage ratio to raise the lending capacity of the banking system. We expect the central bank may announce the RRR cut within this week. Meanwhile, the cabinet required banks to increase credit support to service business and SMEs especially those hurt by the epidemic. The central government also called for further reduction of financial costs for the corporate sector. This does not indicate the policy rates like the LPRs will be definitely lowered, as the central bank may use window guidance or special refinancing supply to lower contract rates to the targeted sectors. As the central bank pays attention to the Sino-US interest rate spreads and exchange rates, the US Fed's aggressive rate hikes tend to restrain the room of China's policy rate reduction. But China economy faces the issue of weak demand, interest rate cut is more useful than the RRR reduction. We believe a mild cut in LPRs is still possible, but rule out the possibility of significant rate cut.

■ **Policies to facilitate consumption resumption.** First, business in catering, retail sale trade, tourism service, air transportation, road transportation and railway transportation can suspend the payment of pension insurance premiums in 2Q22. Second, the cabinet said to promote the consumption of healthcare, elderly care and childcare services and encourage auto and home appliance consumption. Those cities with auto purchase restrictions are encouraged to increase their quotas. The central government vowed to support the development of new energy vehicles and the construction of charging piles. Third, the state council pledged to optimize the rural logistics network to support the online sales in the rural area. But most of these policies are not new and no specific plans are given. At present, there are two main factors restraining the resumption of consumption. First, the epidemic has hurt employment, wage income & consumer confidence especially for those people working in service and small business. The epidemic has also hurt service consumption activity as population mobility has declined. Second, the

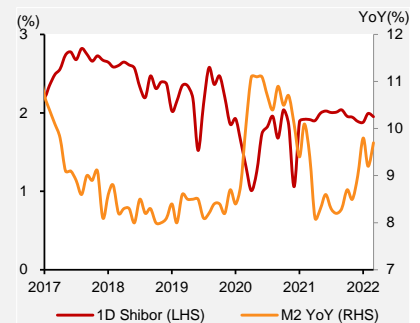
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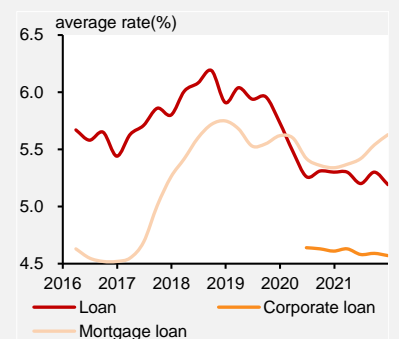
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Source: Wind, CMBIGM



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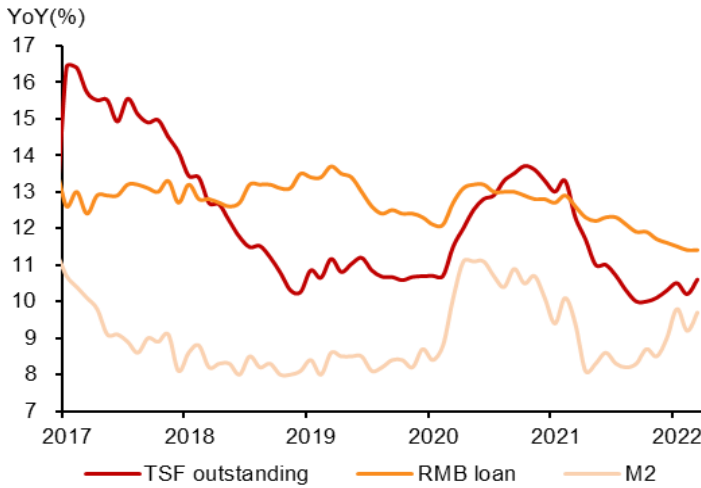


Source: Wind, CMBIGM

stress in property sector and the shrinkage of internet platforms has influenced employment & income growth. To boost consumption, China has much work to do.

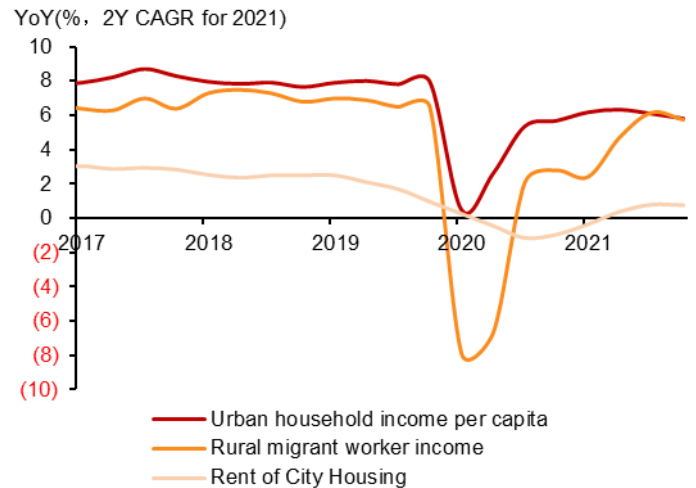
- **Policies to support exports.** First, value-added tax refunds for exporters will be more convenient and fast. Some un-refunded VAT of processing trade enterprises can be used as input tax credits. Second, the cabinet said to plan policies to support the development of overseas warehouses and facilitate cross-border e-commerce returns and exchanges. These policies should help improve exporters' cash flow conditions and facilitate the development of cross-border e-commerce. But their impact on total exports should be limited.

Figure 1: Growth of Credit and M2 Supply



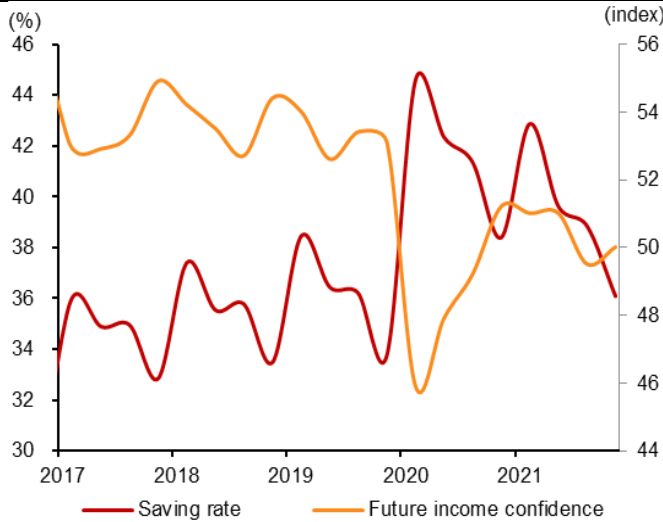
Source: Wind, CMBIGM

Figure 2: Household Income and Rent of Housing



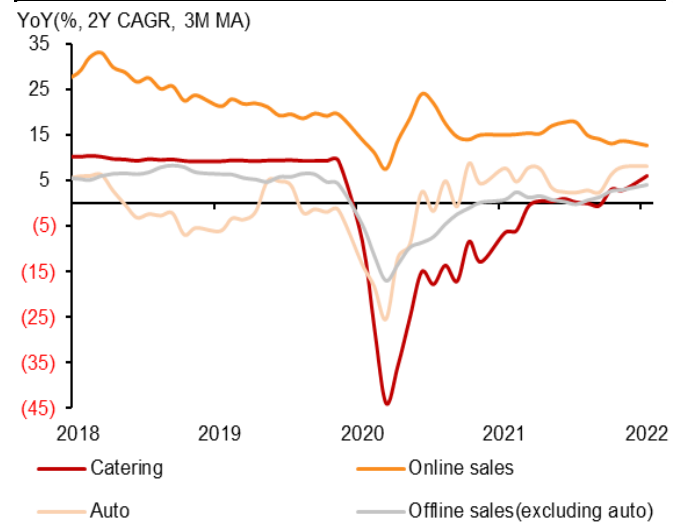
Source: Wind, CMBIGM

Figure 3: Household Saving Rate & Income Confidence



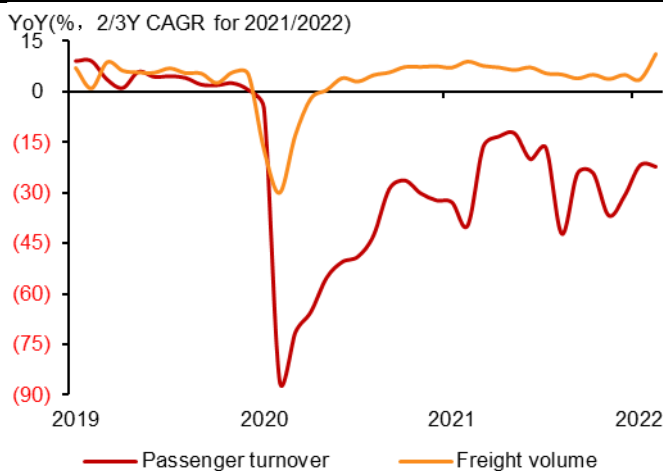
Source: MoF, CMBIGM

Figure 4: Growth of Retail Sales



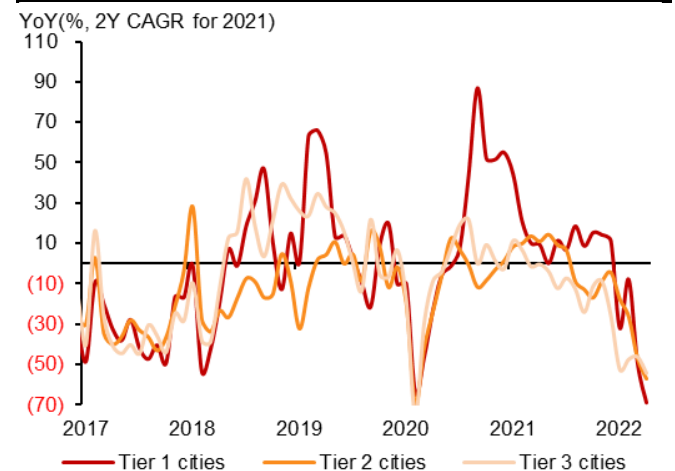
Source: MoF, CMBIGM

Figure 5: Growth of Passenger & Freight Volume



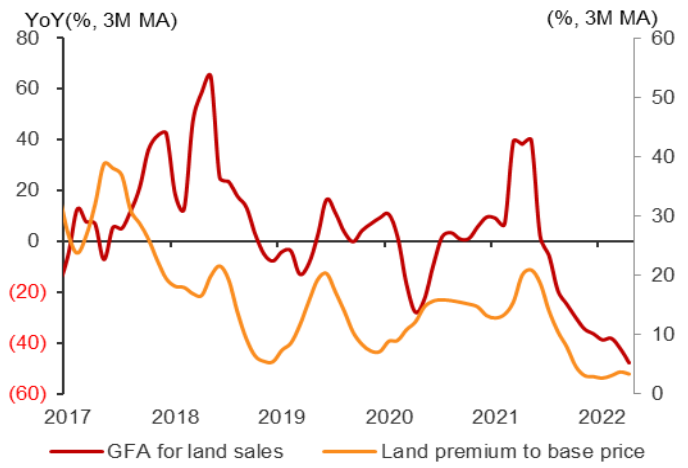
Source: Wind, CMBIGM

Figure 6: Growth of Housing Sales by Cities



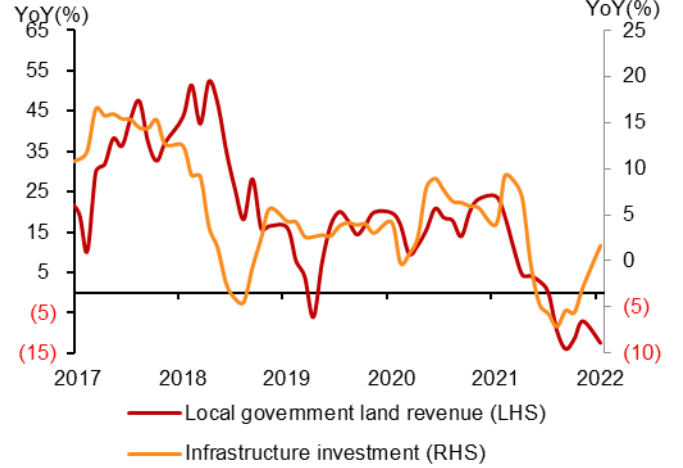
Source: Wind, CMBIGM

Figure 7: Land Sales



Source: Wind, CMBIGM

Figure 8: Land Revenue & Infrastructure Investment



Source: Wind, CMBIGM

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